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Structure for Energy Administration



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June 1, 1973

[G-1] [Report on energy in the province of Ontario]

The Honourable Wm. G. Davis,
Premier of Ontario,
Main Legislative Building,
Queen's Park.



Sir,

On January 15, 1973, you announced my appointment as your parliamentary assistant with special responsibilities in the field of energy. You indicated I would be responsible for discussions with provincial governments and other parties involved in the pricing of natural gas in Ontario and, further, would be responsible for recommending appropriate action to the Government of Ontario. I was to recommend procedures that would integrate the recommendations of the Advisory Committee on Energy with those of Task Force Hydro. I would be responsible for expediting the implementation of these recommendations.

The terms of reference were far reaching. In pursuing them other matters that interlocked with energy policy intruded; these have been examined.

My examination has confirmed my earlier view that this is a policy area of immense and pressing importance. Failure to secure reliable sources of energy for domestic, commercial and industrial purposes at reasonable prices could prejudice the economy of the province.

Energy matters in Ontario are affected by 38 major acts. Nine ministries are involved in varying degrees. There is no adequate machinery for overall coordination or public utility regulation.

The design of policy and management of energy necessitates the creation of a government structure specifically concerned with the design, development, coordination, maintenance and articulation of a provincial energy policy.



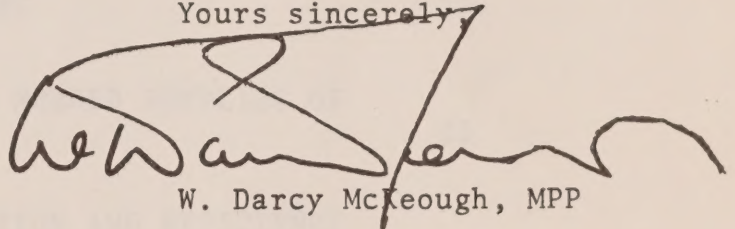
The Honourable Wm. G. Davis

June 1, 1973


This report proposes a structure for energy administration. It deals with the pricing of natural gas. It deals with Ontario Hydro and with energy supplies and security of supply. It deals with reasonableness with respect to energy prices. It recommends a number of energy conservation measures. It proposes many specific actions which, in my view, would be in the best interests of Ontario and concurrently, would be consistent with the national interest.

It is respectfully submitted.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'W. Darcy McKeough', with a large, stylized flourish extending from the end of the name.

W. Darcy McKeough, MPP



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TORONTO, ONTARIO
JUNE 1, 1973

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During the course of my examinations the far-reaching implications of energy supply and demand have become apparent. I have concluded that natural gas cannot be dealt with in isolation -- that oil, coal and other present or potential sources of energy must be reviewed in parallel. Further, the energy problem is far bigger than the decision-making capacity of Ontario. The developing world situation with respect to energy, for example, has a crucial relevance to policies in Canada and Ontario.

No one can reasonably predict that oil will be displaced as the major source of energy for the next one or two decades. Demand is growing and the implications in terms of price must be a matter of conjecture. The Organization of Petroleum Exporting Countries is clearly a cartel that has been successful in escalating oil prices and tightening control of oil resources available for export.

The price of Middle East oil has increased from 90 cents a barrel in 1970 to a current level approaching \$2.00. Negotiations have recently been completed in which the major oil producers set out to recapture any reduction in effective price related to the recent readjustment of the U.S. dollar relative to other currencies: they achieved an 11.9 per cent increase in U.S. dollar terms.

It would not be prudent to assume that there will be no political manipulation of supplies and that the major Middle East producing nations will never resort to an embargo on the export of oil to a particular country in order to achieve political purposes.

Libya, with proven reserves of 25 billion barrels, can cripple the economy of Italy. It must be assumed that Saudi Arabia, with proven reserves of 145 billion barrels, has immense power to manipulate politically. And Saudi Arabia is accumulating foreign reserves from oil exports at the rate of \$4 billion a year.

Given the reserves of capital being built up in the countries of the Middle East and given the demonstrated readiness of groups of countries in the Middle East to support one another financially and in policy initiatives, oil shipments could be suspended for long periods without crippling the producing country. The withholding of oil shipments for a fortnight could cripple a modern industrial economy.

The concentration of oil power in a relatively few countries has a direct relevance to Ontario because it has a crucial relevance to Canada. In his April statement on energy the President of the United States indicated a number of policy initiatives that will tend to permit or cause higher prices for oil and natural gas in the United States. Our resources lie next door to the appetites of the United States. Canada, operating in the absence of the buffer of a clearly articulated national energy policy, is not in a position to protect our domestic industry and consumers in terms of price, supply or, indeed, security of supply in the event of a severe supply crisis in the United States. Canada cannot gamble that the Middle East will never use the power implicit in their control of oil for international political purposes; a politically inspired supply crisis in the United States must be considered to be a possibility.

Under these circumstances the prudence of committing our Canadian resources of energy to the export market is questionable. In fact, should we be considering any further exports of primary sources of energy? Certainly we must not be hasty in bargaining away petroleum and gas resources that may be proven in our Arctic regions and the offshore sedimentary basins in the Atlantic region.

In the longer term, this continent can anticipate less dependence upon oil as alternative energy sources are developed or improved. In the meantime, the petroleum industry will continue to be key and I have come to the firm conclusion that, while attempting to reduce our dependence on oil and natural gas, it would be wrong to suppose that there is any practical prospect of significantly slowing the growth over the next two decades of our utilization of these two energy sources.

We must produce more energy from nuclear sources and I shall recommend that Ontario has to be more vigorous in this area. But electrical energy is not destined to be cheap and cannot, given present technology, be adapted to many of the uses so well served by oil and natural gas. We must increase our consumption of coal but, as compared with petroleum products, coal is difficult to produce, it is costly to transport and in environmental terms, failing the use of expensive environmental controls, it is relatively damaging.

It must also be remembered that Ontario is an energy-importing province, unlike some other provinces of Canada. Canada is nearly in balance in terms of energy produced and consumed. Theoretically, with national leadership, we should be able to protect ourselves from world crises related to energy and heat our homes and power our industry without being caught in the upward spiral of world petroleum prices. We can do so without prejudicing the reasonable aspirations of the

producing provinces within our own nation.

But the assurance of secure supplies of such energy-producing substances as oil, natural gas, coal, water, uranium and wood in the right place at the right time and in the right quantities for any purposes to which we may put it, is going to require increased attention in the future. We can no longer shelter behind the easy assumption that energy will be plentiful and cheap and that we can look forward to a more abundant life for a growing population through the increasing use of energy-intensive technology.

We cannot pin all our hopes, however, on increased research and exploration. This report will deal with the conservation of energy as well. I cannot stress too strongly that I believe that we are going to have to use our existing energy more carefully and that efficiency in the use of energy must be encouraged and rewarded. We need a strong commitment and total effort.

SECTION II

AN ENERGY STRUCTURE

The Government acknowledged in the Speech from the Throne, delivered at the 4th Session of the 28th Legislature on March 30, 1971, that significant changes with respect to energy must be anticipated. The Speech defined the goals of Government.

The Government is determined to assure the adequacy of our energy supplies for the future. It will ensure that the energy is used as efficiently as possible and that its use will not adversely affect the environment, health or life. The Government will strive to maintain a choice between the various types of energy to match them with those uses for which they are best suited.

To assure the achievement of these goals Task Force Hydro was set up under the Committee on Government Productivity and was charged with reviewing the function, structure, operation, financing and objectives of the Hydro-Electric Power Commission of Ontario. In August of the same year Order-in-Council 2483/71 appointed an Advisory Committee on Energy and instructed it "to undertake a comprehensive review to ascertain the future energy requirements and supplies for Ontario and to make such recommendations concerning policies and ways and means of supply as are in its opinion necessary to ensure that these requirements will be met."

My appointment coincided with the virtual completion of the work of these two groups. Early in my assignment I reviewed the reports of Task Force Hydro and the Advisory Committee on Energy.

On April 2, I reported to you at some length as to the conclusions I had reached with respect to an energy structure. It would be useful if I summarized the recommendations of that report. I concluded that there were three distinct functions that are important to the development and maintenance of Ontario energy policy.

1. Development and Coordination of Energy Policy: The Advisory Committee noted that responsibilities with respect to energy were widely dispersed through the Government and that existing machinery was largely uncoordinated. It became clear that the Government must accord a high priority to the development of an energy policy and that the necessary machinery must be established. The motive power within the structure would have to be provided by a very senior and skilled policy and planning body within the Government.

2. Development and Reviewing of Policy for Ontario Hydro: Task Force Hydro underlined that policy issues of joint concern to Ontario Hydro and the Government of Ontario cut broadly across the policy field structure of Government. Although the Hydro Commission clearly should be responsible for its own operating decisions, the Government must have the capability

of providing Hydro with clear and coordinated policy guidelines and, exercising an over-riding responsibility for Hydro's policies

3. Control of Energy Pricing: Energy pricing is an important policy issue for the Government because of the fundamental relationship of aggregate rates to economic development and standards of living within the province. Rate regulation presently applies specifically to the gas utilities, but review and regulation of Hydro rates is proposed; at some future date review of oil prices might be necessary. The strengthening of the regulatory bodies was clearly important.

The new energy structure should be designed to deal primarily with policy questions; I concluded that it would not be necessary to transfer the Energy Branch (mainly a safety function) of the Ministry of Consumer and Commercial Relations or Petroleum Resources Section (mainly a technical service) of the Ministry of Natural Resources. Further, encroachment on the areas of responsibility of the Ministry of the Environment is not desirable and consideration of environmental impacts should remain with that Ministry.

An administrative and reporting structure obviously would be necessary for the performing of these functions. I considered three alternatives:

- The creation of a Ministry of Energy -- the structure most strongly recommended by the Advisory Committee.
- The establishment of an Energy Secretariat to the Provincial Secretary for Resources Development -- the second choice of the Advisory Committee.

- The establishment of an energy division within an existing Ministry, presumably Environment, Natural Resources or Industry and Tourism.

I discussed the advantages and disadvantages of each reporting relationship with a number of ministers and senior civil servants, commissioners and senior officers of Ontario Hydro and the principals of Task Force Hydro and the Advisory Committee, as well as selected groups and individuals outside government.

As might be expected, there were differences of opinion as to the best structure. There was, however, nearly unanimous agreement that the Ontario Hydro Corporation should be the responsibility of the minister concerned with overall responsibility for energy policy, irrespective of the structure established. Further, in terms of rate review, there was support for one regulatory and review board, with two panels, to handle the regulation of gas rates and the review of hydro rates. Most of those in government preferred the establishment of an arms-length relationship between the rate boards and the energy policy functions, the suggestion being that the review functions should be positioned with a ministry in the Justice Policy Field (presumably in the Ministry of Consumer and Commercial Relations) as soon as possible.

In examining these alternatives I concluded that problems relating to energy lay too close to the economic life of the province for the design and implementation of policy to be the responsibility of a division within a Ministry -- that such a structure would not result in the intensity of examination at the Ministerial level that will be in the interests of Ontario.

In considering a Ministry I recognized that in the months ahead the duties involved in dealing with energy policy would be heavy but, in the longer term, had doubts as to whether the policy problems involved would necessitate the full-time attention of a Minister. I concluded that I would not recommend the creation of a Ministry, in spite of the fact it was the first choice of the Advisory Committee on Energy.

As a consequence, I have fallen back on the second recommendation of the Advisory Committee -- the establishment of an Energy Secretariat responsible to the Provincial Secretary for Resources Development. Such a structure will be stronger than a division of a Ministry. It will permit of maximum flexibility; a Ministry could be formed at some later date if this proved to be desirable and, equally, energy could be transferred to a Ministry if that seemed appropriate. The province's machinery for energy planning does not, in my view, require any operating programs. By keeping the overall energy responsibility at the Provincial Secretary level the policy emphasis should be maintained.

In order to assist the Provincial Secretary in developing and maintaining energy policy I decided to recommend that an Energy Secretariat should be formed. This should be a compact, highly skilled policy advisory group. Under the leadership of a Deputy Secretary, Energy, it should include economists and policy analysts that are familiar with the oil, gas, electrical and uranium industries, an environmentalist, legal counsel and a scientist capable of directing and monitoring research activities contracted to industry or to the departments and agencies of government.

It is important that the Secretariat not be just an internal think tank. Through a system of external advisory boards and committees we can make use of expertise of the private sector in areas such as the specific components of the energy industry, solving the large financial problems associated with supply and new technology, and soliciting advice of those knowledgeable in the energy conservation field.

We are on the threshold of massive and exciting developments in the energy field. Not only do we need to work in concert with outside expertise but we need to very much involve the public.

Task Force Hydro Report #3 stressed the need for a much greater understanding of nuclear technology by the public. Those recommendations, I believe, should apply to the entire energy field. I therefore envisage many of the reports of the Secretariat being made available to the public as well as to

the government.

The terms of reference of the Energy Secretariat would be along the following lines:

1. Formulate policy recommendations to assure the adequacy of our energy supplies for the future.
2. Make recommendations for the effective coordination of energy matters within the Ontario Government, with a view to ensuring the consistent application of policy in every area of concern regarding energy, including the adequacy and security of supplies, prices, franchises and the development of indigenous sources. I stress the word "coordination": much of the required expertise is available in government, its agencies and the private sector. Coordination does not imply a duplication of those resources in the Secretariat.
3. Advise and assist the Government of Ontario in its dealings with other governments regarding energy matters.
4. Make recommendations regarding priorities for and the development of research in all aspects of energy of significance to Ontario, including the conservation of energy and the improvement in production and utilization and the development of new sources.
5. Report on any energy matter that is referred to it for study and advice by the Provincial Secretary.

I agree completely that the responsibility within the Government for the Ontario Hydro Commission should be at the same place as the responsibility for overall energy policy. Ontario Hydro is a very large supplier of energy and the largest user of energy in the province and its policies will parallel the impact of Government energy policy on such matters as quality of life, environment and industrial development. Further, if Ontario Hydro were the responsibility of another Ministry it would set up a potential for conflict within the Government in the responsibility for energy. Like the Energy Secretariat, Hydro should be the responsibility of the Provincial Secretary for Resources Development.

The review or regulation of energy costs is difficult in organizational terms. Duplication of scarce and skilled staffs and the even treatment of energy sources convinces me that there should be only one organization to review or regulate energy rates for which the Province has jurisdiction. The difficulty is in determining the relationship between the organization responsible for rate review or regulation and the Energy Secretariat. While I have concluded that ultimately they should be clearly separated and that the rate review and regulation function should operate in a quasi-judicial role and report to the Legislature through the Minister of Consumer and Commercial Relations in the Justice Policy Field, for the time being at least this function should be assumed by an organization reporting to the Provincial Secretary for Resources Development. The logical choice is to expand the present Ontario Energy Board so that it has a rate

review responsibility for electrical energy in addition to its regulatory responsibility for natural gas.

I recognize that the longer term implication of this recommendation runs counter to that of the Advisory Committee on Energy, which envisaged a single Ontario Energy Commission in which the policy advisory and regulatory functions would be combined. I recognize also that there are strong arguments for either procedure but concluded that the rate review or regulation function should ultimately be performed by a separate and distinct entity from the Energy Secretariat so that it can deal fairly with all who appear for review or regulation. Therefore, as the energy planning group gains experience, strength and confidence and staffs are sorted out, the Government should ensure that the separation is strengthened by moving the rate review board.

The structure that is visualized will exist to ensure the realization of the goals of the Government with respect to energy. These goals should include lowering the consumption of energy below that projected by the Advisory Committee. The Committee was very conscious that increased attention must be paid to conservation of energy and efficiency in production and conversion but the figures used for estimating population growth in Ontario by the Committee preceded the 1971 census; given the figures subsequently revealed by the census I incline to the thought that the actual rate of increase of population may be lower than visualized by the Committee and, if so, consumption of energy may fall below their projections.

The goals were stated in the 1971 Speech from the Throne. Subsequent developments suggest that they should be broadened.

Proposal #1 The Government should assure the adequacy of our energy supplies for the future at reasonable prices. It should ensure that the energy is used as efficiently as possible and that its use will not adversely affect the environment, health or life. The Government should strive to maintain a choice between the various types of energy to match them with those uses for which they are best suited. It should provide leadership in assuring moderation in the consumption of energy.

The administrative structure and the reporting relationships should be very specific.

Proposal #2 The Government of Ontario should create an energy group, to be known as the Energy Secretariat, directed by a Deputy Secretary, Energy, and reporting

to the Provincial Secretary for Resources Development.

Proposal #3 Ontario Hydro should report through the Provincial Secretary for Resources Development.

Proposal #4 The Ontario Energy Board should report through the Provincial Secretary for Resources Development.

The goals of the Government with respect to energy, the achievement of which it is proposed will be the day to day responsibility of the Provincial Secretary for Resources Development and the Deputy Secretary, Energy and their staff, can be divided into four clearly specified areas:

1. Securing a supply of energy commensurate with the needs of the province.
2. Encouraging efficiency in the production of energy and encouraging moderation in the use of energy resources.
3. Minimizing any detrimental effects on the environment that might result from energy production or utilization.
4. Ensuring the availability of energy to Ontario consumers at reasonable prices.

In the sections that follow I will be commenting at length on each of these specified areas and will be making specific policy proposals.

SECTION III POLICY GOALS IN THE NATIONAL INTEREST

Any discussion of energy supply must note that Ontario is dependent upon sources beyond the borders of the province for some 80 per cent of its energy. The increasing use of nuclear power and the possible development of the limited fossil fuel within the province is likely to decrease our dependence on extra-provincial sources.

The responsibility for energy jurisdiction is by no means clear in the Canadian constitution. The point will be made later in this report that national energy policy, implying federal leadership, is an imperative in a national industrial policy. Proposals 5 through 9 involve an input by the Government of Ontario toward the end of achieving appropriate national policies.

Security of supply is a more major consideration in Ontario than in regions that have large indigenous sources of fossil fuel. Further, the acceptance of the achievement of secure supplies at "reasonable" prices as a goal of policy cannot realistically be read to mean "low" prices: Task Force Hydro and the Advisory Committee on Energy have both projected significantly higher costs and prices with respect to energy in the years and decades ahead. The era of cheap energy has ended.

The objective of the Government of Ontario must be, first, to be assured of security of supply of energy and, second, to assure that prices for domestically produced energy are reasonable, with "reasonable" implying that prices are not out of line with energy

prices in provinces, regions or countries with which Ontario has commercial and trading relationships.

Proposal #5 The Government of Ontario should make continuing representations to the Government of Canada to ensure that Federal Government policies have as their stated objective that exports of Canadian energy resources of all types, including uranium, are not permitted until long term supplies for Canada are assured.

Proposal #6 The Government of Canada should be pressed to resort to energy price controls if this is necessary to ensure that (a) domestic prices of energy resources are not inflated by crises with respect to energy supply beyond the borders of Canada and (b) are not unduly influenced by the anticipation of higher costs of production relating to future energy supplies.

The development of Provincial/Federal energy policies will require effective consultation between the provinces and the Federal Government. It will also require coordination with the mineral and industrial policies of the provinces. In Ontario the operations of the Resources Development Policy Field Committee and the Policies and Priorities Board ensure that this coordination will occur. No such mechanism exists at the

Federal/Provincial level. It is important to ensure that this cooperation is accomplished in the establishment of policies concerning the development and utilization of Canadian energy resources.

Proposal #7 The Government of Ontario should cooperate fully with the Government of Canada in the creation of improved Federal/Provincial policy development mechanisms with respect to energy; under any new structure policy leadership should be vested in the elected representatives in the national and provincial parliaments rather than in the appointive National Energy Board.

Decisions on the need for and the capacity of interconnections between provinces are normally made on the basis of the benefits to the electrical utilities involved. Although it is recognized in Ontario that most of the benefits of a national power grid would accrue to the smaller provinces, such a grid should be considered as part of a national energy policy. If it is found that a more extensive grid than is presently evolving is in the national interest this could be accomplished by the Government of Canada providing assistance (a) to enable the construction of interprovincial interconnections which cannot be justified

by the immediate needs of the utilities involved or (b) by the building of higher capacity interconnections than can now be justified on narrow economic criteria.

Proposal #8 In developing a National Energy Policy the Government of Canada should include consideration of the establishment of a more comprehensive national power grid which would provide for a more effective use of electrical energy in Canada and, short of prejudicing Ontario consumers, the Government of Ontario should direct Ontario Hydro to be conscious of the national interest in the production, conservation and distribution of electrical power.

By the same token, the Government of Canada should re-examine the national policy as it applies to oil. The split-market ground rules established in Canada under the National Oil Policy of 1961 were designed to enlarge the demand for oil from Western Canada by reserving the area west of the Ottawa Valley for domestic suppliers. This policy had the twin effects of making the Maritime Provinces and Quebec dependent upon foreign source of oil and requiring that Ontario pay a higher price for its oil than would have been the case had the province had free access to world sellers.

The development of Ontario Hydro's large oil-fired generating plants at Lennox and the proposed Wesleyville site, the supply/demand relationships which have evolved, the increased uncertainty associated with off-shore oil supplies, together with the strong bargaining position of the United States due to Eastern Canada's reliance on the United States as an emergency source of supply, have combined to alter the 1961 circumstances. Many of these evolving shortcomings could be effectively resolved and a national energy policy enhanced by the construction of a two-way crude oil pipeline linking Quebec and the Maritime Provinces with Western Canadian oil sources. Major advantages accruing from such a venture would include strengthening of Canada's bargaining position vis-a-vis the U.S., improving security of supply to Eastern Canada, the ability to effect some control over the escalation of oil prices and the provision of a facility whereby Quebec could supply oil products to consumers west of the Ottawa Valley line. This latter advantage would become very significant should Eastern Canadian off-shore reserves be developed. If these reserves are not as significant as we all hope they are, then this line would serve to bring Canadian Western supplies of oil to additional Canadian markets.

Further, it would seem consistent that a National Oil Policy that in 1961 considered Alberta's need for security of market for oil at a reasonable price, should now equally acknowledge Ontario's requirement of security of supply, also at a reasonable price.

Proposal #9 The Energy Secretariat should be instructed to study the appropriateness of the National Oil Policy as it affects the national interest and the consumer of energy in Ontario, bearing in mind the critical importance of security of supply and the large price that, within the framework of the National Oil Policy, Ontario consumers have paid over the past decade.

Further, the Energy Secretariat, together with the Ministry of Treasury, Economics and Intergovernmental Affairs and Ontario Hydro, should give careful study to the potential benefits of combining Ontario Hydro's oil transport requirements with those of the private sector through the joining of Toronto and Montreal with a two-way pipeline.

SECTION IV SECURING NEEDED SUPPLIES OF ENERGY

There are specific activities that the Government of Ontario might consider that would contribute directly to increasing the security and availability of different forms of energy at reasonable prices.

A. FOSSIL FUELS

Ontario has little prospect of establishing the existence of significant reserves of petroleum, natural gas and coal (other than lignite) within its boundaries. There is no apparent major activity the province can undertake that holds promise of establishing supplies of indigenous fossil fuels that will be significant relative to provincial needs. It is nonetheless desirable to encourage the discovery and development of potential supplies that do exist within Ontario.

Utilities which provide energy for Ontario consumers and which are subject to review and regulation by the Government of Ontario should not be discouraged if they wish to make investments in energy reserves.

Proposal #10 Subject to being consistent with the broad policies and objectives of Government, Ontario Hydro and other regulated utilities concerned

with energy supply should be encouraged to take whatever steps seem appropriate, including investment in energy reserves within or beyond the borders of the province, to ensure the long-range security of supply of fossil fuels.

Proposal #11 Regulated utilities should be encouraged to invest in the exploration for and production of natural gas and, further, the Government of Ontario should consider the inclusion of approved investments in the cost of service or rate base of such utilities.

Much of the future energy supply of Ontario will have to be transported from remote areas or will require the development of new technology related to the recovery of oil, gas or coal or for converting one form of energy to another. Ontario must be prepared to play a role in research, exploration and development projects in connection with potential energy resources located in the Territories and all provinces. We should avoid duplicating work that is now being done elsewhere. Projects might include the development or improvement of technology needed to permit the economic exploitation of known resources of petroleum, natural gas and coal and to develop

new and more efficient methods of energy transport. The Ontario role could include joint undertakings and ventures with private enterprises, other provincial governments or their agencies and the Federal Government and its agencies.

Proposal #12 The Government of Ontario should establish an energy development fund which would be authorized to commit provincial resources for projects which are deemed to be potentially of importance to this province and which are not being adequately dealt with at the present time. Initially the fund could be responsible for judgments as to the funding of developments recommended in later sections of this memorandum and, in the longer term, could take specific initiatives in various energy sectors and geographic areas.

There is no disposition to prejudge the kind of activity that should receive support through such an energy development fund.

We are heartened by the amount of research and developments that are taking place in the private sector throughout North America. The funds being committed are enormous. It is incumbent on the Secretariat to keep in close touch with those developments. Our funds and resources are limited and must be used selectively. The kind of initiatives, which should be

monitored include such things as coal gasification; development of techniques for the exploitation of the heavy, crude oil deposits such as those at Cold Lake, Alberta; in situ production from Athabasca oil sands; new pipeline technology, including oil/coal slurry pipelining; unit train development; air transport of crude oil or natural gas; improved electrical transmission procedures.

The Western Premiers have accorded freight rates the highest priority on the agenda for their forthcoming conference with the Government of Canada. Ontario has recognized how critical freight rates are in terms of the economic development of parts of this province and has reduced freight rates in Northeastern Ontario. That kind of action is even more important for Western Canada. The Ministry of Transportation and Communications is gaining an expertise in the area of freight rates. That Ministry should lend all possible support to studies of the Western provinces both on the broad questions of this issue and on the specifics as they emerge. Broadly, for example, we should support the Western Premiers' demand for complete disclosure of railroad costing in Canada.

Specifically, possibilities exist with respect to coal. The western provinces and, in particular, the Province of Alberta, are attempting to broaden their economic bases through improvement in the market for coal. Ontario is

presently a major buyer and importer of both metallurgical and thermal coal and, in terms of supporting the domestic utilization of this Canadian resource and improving the balance of payments position of Canada, Ontario should assist in the development of policies and technology that might enable Alberta coal to be delivered to Ontario by rail or slurry pipeline at a cost competitive with present sources.

Proposal #13 Recognizing that transportation is fundamental to the ability of Alberta coal to compete in price terms in the Ontario market, the Energy Secretariat, Ontario Hydro and the Ministries of Industry and Tourism and Transportation and Communications should examine the competitiveness of Alberta coal and, with the Ministry of Treasury, Economics and Intergovernmental Affairs, should examine the whole area of freight rates in Canada and alternate means for the economical delivery of coal to Ontario.

Private enterprise will continue to play its primary and productive role in the development of supplies of basic energy resources but the Government of Ontario must stand prepared to make direct investments to assure an adequate supply of energy resources if it should appear that this becomes necessary or desirable. The decision for the Government to actually invest will depend upon the form of regulation and supply control measures introduced by other provinces and by Canada through the National Energy Board. No specific activity can now be proposed, but adaptable structures should be created.

Proposal #14 The Energy Secretariat should give a high priority to developing a set of guidelines that would permit direct provincial investment in energy resources.

A specific proposal has been made to the Government of Ontario which visualizes the development of mammoth aircraft designed for the transport of liquefied natural gas and crude oil from the Arctic regions. Costs and uncertainties with respect to other modes of transporting energy from the High Arctic and the possibility of using such an aircraft for other transport activities make it sufficiently tantalizing that Ontario might support others in research related to such a vehicle.

Proposal #15 Ontario should be sympathetic to approaches made with respect to research related to very large transport aircraft; if it is established that a serious research project is proposed this province should consider joining with other governments and private corporations in providing funds to test the engineering, energy efficiency and economic feasibility of such a mode of transport.

B. NUCLEAR POWER AND URANIUM

Much of Canada's progress in the development of nuclear power has been the result of cooperative research and development undertaken by Atomic Energy of Canada Ltd. and Ontario Hydro. In the absence of such cooperation from Ontario it is not conceivable that the CANDU process would now be operative. In taking a calculated risk in an area in which the sums of money involved were enormous, the Government of Ontario made an immense contribution to technological progress in Canada and, further, to the development of an economic procedure for converting energy sources that are indigenous to Ontario into needed electrical energy.

The success of the cooperative program that resulted in the development of the nuclear program underlines the importance of a research and development program within the framework of a provincial and national science policy associated

with the national purposes as they relate to industrial strategy.

Proposal #16 The Government of Ontario must ensure that research and development with respect to energy sources is vigorously pursued within the framework of a provincial and national science policy and, further, Ontario Hydro should continue its policy of undertaking research and development work jointly with A.E.C.L. in order to exploit development of the current CANDU PHW system and to ensure future development of the CANDU family of heavy water reactors.

The success of the Pickering Nuclear Generating Station has ensured that additional nuclear thermal plants in Ontario will be based on the CANDU system. It is thus important that Ontario Hydro should have an adequate supply of natural uranium and heavy water. Security of supply of these two materials must be considered to be central to a policy of security of supply of energy for the province.

Proposal #17 The Government of Ontario should cooperate in all appropriate ways to ensure the security of adequate supplies of uranium and Ontario

Hydro should take whatever action is considered necessary to guarantee a secure long-term supply.

The urgency of assuring a firm supply of heavy water cannot be emphasized too strongly.

Proposal #18 Ontario Hydro should consider the purchase from Atomic Energy of Canada Ltd. of the Bruce Heavy Water Manufacturing Plant or the construction, alone or as a joint venture with private enterprise, of additional heavy water plants as needed; more generally it should take whatever action is considered necessary to assure a secure supply of heavy water. The Government of Ontario should cooperate in securing assured supplies.

Natural resources are ordinarily owned and controlled by the province within whose borders the resource is found. This is not the case with respect to uranium. Under the regulations of the Atomic Energy Control Act, 1946, the control of uranium, thorium and plutonium is vested in the Atomic Energy Control Board.

The A.E.C. Act was passed in 1946 when the principal use of uranium was expected to be military, rather than being

the raw material for a major source of energy. Changing circumstances have removed most of the validity that this Act originally possessed; consistency in mineral policy and the necessity of Ontario assuring a secure supply of uranium dictate that Ontario should seek the restoration of the control of uranium and thorium to its jurisdiction. National concerns should be fully satisfied if the Government of Canada retains control of plutonium. The international and interprovincial movement of uranium and thorium should continue to be under Federal control.

Proposal #19 The Ministry of Natural Resources should make representations to the Government of Canada to vest the control of the prospecting for and mining of uranium and thorium in the provinces.

The policies of the Federal Government with respect to the equity control of uranium mines is such that exploration and development is greatly impeded. Modifications of these policies should be sought. There are grounds for concern as to the adequacy of long-term uranium reserves in Ontario and Canada. These reserves need to be increased and new sources of uranium are likely to be required if long-term demands are

to be satisfied: given the long lead time required to move from exploration to the production of uranium oxide there is urgency in the modifying of the regulations.

Proposal #20 Representations should be made by the Ministry of Natural Resources to the Government of Canada to amend its policies as they relate to equity requirements with respect to uranium mines and the right to undertake exploration operations so that they parallel the policies and regulations that apply to oil and natural gas and other minerals. Further, the Energy Secretariat should ask the Government of Canada to develop an exports formula for uranium and thorium similar in intent to that now applicable to natural gas.

Proposal #21 The Ministry of Treasury Economics and Intergovernmental Affairs should examine the feasibility of using the tax system to increase exploration activity for uranium. Further, the Ministry of Natural Resources should examine means in which amendment or strengthening of the Mineral Exploration Assistance Act might result in the intensifying of the search for uranium.

Exploitation of the technology developed in connection with the CANDU process should be undertaken in such a way as to provide the maximum utilization of Canadian engineering skills and industrial capacity. Recognizing that the export of power, as distinct from the export of uranium oxide, would produce this result, consideration should be given to a proposal to construct nuclear plants in Canada for the supply of power to the United States. This approach has wide ramifications in terms of uranium supply, engineering and manufacturing capacity and environmental considerations; explicit policy recommendations cannot be made at this time. Nonetheless, the province should ensure that an adequate base of knowledge is obtained to serve as a basis for policy information.

Proposal #22 The Ministries of the Environment, Industry and Tourism, the Energy Secretariat and Ontario Hydro should give formal and careful consideration to all the advantages and disadvantages of a proposal to construct a nuclear power plant on the Canadian side of the Canadian/U.S. border, which will be dedicated to the production of electricity for consumption in the United States. They must consider environmental effects, job creation, the improvement of engineering skills in Canada and, most important of all, the availability of uranium supplies.

SECTION V CONSERVATION AND EFFICIENCY IN ENERGY USE

Ontario has one of the highest per capita rates of energy consumption in the world. The province has historically had an abundant supply of energy available at a relatively low cost which has influenced the pattern of industrial development and domestic use, and high consumption has also presumably related to climate, the nature of housing and the pattern of personal transportation.

The province historically has been more concerned with the assurance of adequate energy supplies than with efficiency and conservation in the use of energy. Circumstances have altered and are likely to alter further. In a period of rapidly rising costs and incipient short supplies of energy Ontario -- and this is equally true of all of Canada -- must now be as preoccupied with efficiency of use and moderation in demand as it is in enhancing the supply of energy.

The Advisory Committee has suggested that increased attention must be paid to conservation of energy as well as efficiency in the production and conversion of energy. Certainly policy should be bent in the direction of restraining energy consumption with the objective of being below the consumption projected by the Advisory Committee.

The conservation of energy is only now being opened up for serious debate. If the objective stated in the previous paragraph is to be achieved the Government of Ontario has an important role in clarifying the issues and providing leadership in terms of energy conservation. Among other considerations it is suggested that prices paid by specific consumers in the province should relate in an appropriate manner to the true costs of producing that energy and, within the costs considered, must be included the social and environmental costs that are incurred.

Conservation of energy will not only extend the use of limited supplies but will reduce the detrimental effects on the environment that are implicit in the production and use of energy. Obviously, much of the benefit of conservation in Ontario will be lost if conservation fails to become a national preoccupation. Conservation of energy should be an important element in any national energy policy.

The initiative of the Government of Ontario in slowing the construction of freeways and in increasing the emphasis on mass transit is an important first step toward the conservation of energy in transportation. Although the stated reasons for encouraging mass transit have included minimizing the detrimental pressures on the environment, limiting the need for major highway arteries and the improve-

ment of the quality of life in the cities, an equally important consideration is that the consumption of energy per passenger mile is more than doubled in using private automobiles, as compared with public transportation.

The dialogue with respect to public transport has not tended to highlight the important implications that it has to the conservation of energy and its related environmental implications.

Proposal #23 The Ministry of Transportation and Communications should emphasize the importance in terms of the conservation of energy of the increased use by the citizens of public transportation.

Quite apart from the obvious implications with respect to increasing investments in roads and damage to the environment, the utilization of truck transport as compared with rail transport is inefficient in terms of the use of energy. If economic circumstances permit any significant transfer of bulk movement of goods from trucks to rail it would contribute to the more efficient use of energy.

Proposal #24 The Energy Secretariat should consider the energy conservation implications of inter-modal transport transfers and an examination should be made by the Ministry of Transportation and Communications of the economic feasibility of the movement of a higher proportion of goods within Ontario by rail and, if practicable, should design policies which would tend to support such modal transfers.

It is notorious that there are inefficiencies in the heating of homes. Inadequate insulation and sealing of homes can result in a significant loss of energy. Further, the use of "builders incentives" to encourage a builder to use a particular form of energy inhibits the operation of the price mechanism as a determinant of the energy type used. If price is to be an influence in the direction of assuring efficiency in energy use, there is clearly no place for the distortions that result from incentive programs.

Proposal #25 Ontario Hydro should terminate and the Provincial Secretary for Resources Development should request all private companies to terminate any practices, such as "builder promotions"

that distort the value placed on energy or that encourage the inefficient use of energy. Further, it should encourage improved insulation of homes and co-operate fully with the Associate Committee of the National Research Council and other agencies in the development of improved insulation materials and procedures.

Proposal #26 The Ministry of Government Services should establish higher insulation standards in buildings constructed for the province and define standards for promulgation by Management Board for other projects where public funds are employed.

The public should be encouraged to practice thrift in the use of energy consuming devices. As a first step, such thrift should be insisted upon in all operations under the direct or indirect control of the Government.

Proposal #27 The Ministry of Government Services should institute a program to reduce any unnecessary and wasteful use of energy in its own buildings and in areas under its control,

and the Government should encourage building owners, corporations and private citizens to do the same.

Superior sources of energy are frequently used where, in terms of providing the necessary energy output, an inferior source could be used. In some cases this may be justified for environmental causes -- the use of natural gas for boiler fuel in the Hearn Generating Station -- but in general the utilization of the cheapest fuel that is practicable results in the most efficient use of energy. Over time, improved scrubbers and precipitators might result in many cases in the practicality of using lower grade fuels with minimum environmental damage; in an effort to assure that any energy source is used for its highest and best purposes, the Government should involve itself in research that would result in the most efficient use of various energy types.

Proposal #28 The Energy Secretariat should cooperate with Ontario Hydro and relevant national scientific bodies in an effort to assure that less environmentally desirable sources of energy can be used in environmentally sensitive areas and that the different energy materials are put to their highest and best use.

The conversion or use of energy forms in many cases is inefficient and results in the waste of energy. For example, a substantial amount of energy is lost in the discharge of water that has taken on heat energy in the cooling of thermal plants and, similarly, various current methods of home heating result in energy waste. Methods must be designed that utilize this energy or, at a minimum, reduce loss.

Proposal #29 The Energy Secretariat and Ontario Hydro should seek ways and means of reducing inefficiencies in the conversion and end use of energy including, for example, improved efficiency in the systems for home heating and improved thermal efficiency in electric heating plants.

In the purchase of automobiles and appliances, many customers are primarily concerned with capital costs and are unaware of relative operating costs and the energy consumption implicit in the larger sizes and in certain models. A concerted campaign to make the public increasingly conscious of the inefficient energy consumption of larger motors, special features on appliances and the like should be undertaken.

- Proposal #30 The Ministry of Consumer and Commercial Relations should concern itself with potential economies in the consumption of energy related to alternative types of automobiles and appliances in use in the province; this should include gasoline consumption by different models of automobiles at different travelling speeds and energy utilization of alternative appliances. Further, the Ministry should assure that the public are provided every opportunity to be well informed as to the energy consumption of alternative models.
- Proposal #31 The Ministry of Treasury, Economics and Intergovernmental Affairs should undertake a study with the Ministry of Transportation and Communications designed to relate licence fees for automobiles more closely to the consumption of energy than is accomplished by the present simple rating by the number of cylinders.

Limitation of advertising or anything that can be construed as control of advertising obviously must be approached with sensitivity. But advertising has a bearing on the consumption of energy. Ontario Hydro's recent report that it has withdrawn load-building promotional advertising in favour of advertising which will stress the wise use of energy is noted with approval. Advertising activities have a relevance to energy conservation and efficiency of use, and can have an impact with respect to the environment.

Proposal #32 The Provincial Secretary for Resources Development should direct Ontario Hydro and the regulated utilities and request all private companies to avoid promotional practices or advertising which tend to encourage the use of energy.

Proposal #33 Ontario Hydro should influence municipal utilities in the direction of assuring that their advertising should be compatible with the overall objectives of the energy policy as defined by the Government of Ontario.

Price structures adopted by Ontario Hydro and other provincially regulated suppliers of energy should be designed to encourage economy of energy usage rather than to encourage increased consumption. Price policy should encourage and

reward efficiency in the use of energy.

Proposal #34 The Energy Secretariat should be instructed to determine the elasticity of demand in the various energy sectors. Efforts will have to be made to modify the pricing structures for all energy forms, in the light of overall provincial policy, so that efficiency in the use of energy is encouraged and rewarded.

Initiating serious discussions in terms of establishing permanent daylight saving time in Ontario may be premature. In the event that at some time in the future there should be a serious problem of energy supply, it is worth noting that an estimated saving of 400 MW of capacity could be realized by Ontario Hydro alone by the adoption of year-round daylight saving time; savings with respect to other types of energy would add to this total.

Proposal #35 The Energy Secretariat should study the opportunities for energy conservation achievable through the instituting of daylight saving time all year and double daylight saving in the summer months.

(Note: While conservation measures can and should be sought in many present energy applications and indeed a number of priorities are herein outlined, this politician cannot seriously recommend actions which might be taken to deal with, for instance, the kitchen stove pilot light or the "instant-on" t.v. set. There are limits!)

SECTION VI PROTECTING THE ENVIRONMENT

Ontario is acknowledged to be in the forefront in terms of its requirements for environmental protection, including in the energy field. All proposed energy projects should be subject to an environmental assessment by a Government agency. Location and design of electric power transmission corridors must be closely scrutinized. Energy developments should not be permitted to proceed until the impact on the environment is proven to be acceptable.

The previous section of this document, which deals with the conservation and efficient use of energy, has far-reaching implications with respect to reducing environmental impact. Effective conservation practices will serve two objectives of Government -- efficiency of use and environmental considerations.

In spite of a good record and positive further proposals related to energy conservation, policies more specific to the environment are required. Environmental matters are the direct concern of the Ministry of the Environment and there is no disposition here to encroach on the responsibility of this Ministry. Energy policy, however, involves environmental policy and close cooperation will clearly be necessary.

Up to the present, for example, thermal generating plants in Ontario have been permitted to employ the method known as "once-through cooling", which results in the effluent cooling water re-entering the main body of water at a temperature higher than that at which it was withdrawn. Cooling towers and holding ponds, which can correct this, add significantly to the capital cost of constructing a generating station and questions still remain as to the environmental effects of such cooling procedures. However, as demand for electrical energy grows and more plants are built, the problem of effluent disposal will intensify. The recent report by Task Force Onakawana noted that too little was known about the effects of the disposal of cooling water into flowing rivers; also more data should be available on the implications with respect to disposal in large bodies of water.

Proposal #36 The Ministry of the Environment should ensure the relative costs and environmental impacts of alternative methods of handling cooling water used in thermal-electric installations are thoroughly examined.

Serious questions are being raised as to how far automobile emission control standards should be raised, given that the reduction of emissions progressively reduces the miles that a given vehicle will travel on a gallon of gasoline. In the non-urban areas of Ontario air pollution is not a serious problem and even in the urban areas it is not inappropriate to examine the question of air pollution jointly with the need for energy conservation.

The Province of Ontario cannot operate unilaterally on this question but a well-reasoned provincial position should be developed.

Proposal # 37 A review of the evidence at hand concerning the comparative implications to the province of Ontario of increased energy consumption and the progressive decrease of exhaust emission should be undertaken by the Ministry of the Environment and the Ministry of Transportation and Communications and the resulting report should be made available to the public.

Although dealt with under energy conservation, flexibility in the use of alternative energy sources tends to be inhibited by environmental concerns and it is appropriate to again note that development of adequate emission control

devices could permit the displacement of premium quality hydrocarbons by coal and high sulphur oil. This is an area that, for energy conservation as well as environmental protection reasons, should receive the concentrated attention of the Government of Ontario.

SECTION VII PRICES THAT ARE REASONABLE

The maintenance of reasonable prices for energy requires the constant attention of the Government of Ontario. This implies a mechanism for the review of rates charged by Ontario Hydro, the continuing review of other rates within the province and, in general, a strong governmental presence in energy policy in terms of supply, demand and price.

Hydro Rate Review Board: Ontario Hydro has indicated that increases in bulk power costs of up to 8% per year might be anticipated for a number of years if they are to generate enough internal funds to establish and maintain an appropriate relationship between internal and external financing. While there are indications that some modification for these cost trends may occur there is no question projected rate increases over the next few years will be substantial.

It was noted by Task Force Hydro and is generally recognized by the public that the shift from hydraulic power to fossil-fuelled and nuclear-fuelled generating plants is a shift from a less costly to more costly forms of generation. That an increase in rates is necessary is not a surprise. Nonetheless, as I noted, the proposed increases are large and, in the interests of the consuming public, the applications for increases must be scrutinized very carefully before they are approved.

There presently is no independent and expert body that is competent to review and approve, disapprove or alter rate increases sought by Ontario Hydro. In the past and prior to the onset of the strong, upward trend in the costs of generation and transportation of electrical power, such a body was not felt to be necessary. Under the new circumstances it is my view that such a body should be created.

In addition to ensuring that prices for electrical energy are reasonable in Ontario, Hydro must satisfy the public that they are reasonable. This implies dual action: Hydro must ensure that the rates properly reflect no more and no less than the full costs of supply and, concurrently, must ensure that the consuming public understands the basis for their rates.

I am well informed as to the contents of Task Force Hydro Report No. 4 which will be available soon. I have also made a preliminary examination of Ontario Hydro's proposed Generation Development Program for 1977-82.

I am impressed with the urgency for early decisions with respect to this Generation Development Program but, clearly, approval of this program carries with it the implication of the upward revision of rates to effect increased internal generation of funds as well as to offset cost increases: there is an obvious need for a careful technical examination of the proposals and the rate implications that approval of the proposals

carries. Further, there is a clear need for an opportunity for inputs by the public. Task Force Hydro Report No. 4 bears very directly on the complexities of examining Hydro's generation development program, the financial requirements and the implications to rates; this report requires exhaustive examination.

As a procedure for dealing with this crucially important and highly complex issue, in a manner that will not unduly complicate the efficient performance of Hydro's responsibilities, I suggest the creation of Hydro rate review procedures and the approval in principle of the generation development program, followed by a reference for review and report by the Ontario Energy Board.

Proposal #38 The Government of Ontario should give approval in principle to the Generation Development Program, 1977-82, proposed by Ontario Hydro, but the program should be referred to the Ontario Energy Board for public review as one of the first components when it considers the Ontario Hydro application for rate increases.

- Proposal #39 The Government of Ontario should institute a rate review process applicable to Ontario Hydro and should make the needed extensions to the scope of the Ontario Energy Board. Included in the review process should be provision for examination of capital programs, reserve margins, debt/equity ratios and the appropriateness of proposed rates of return.
- Proposal #40 Ontario Hydro should inform the Provincial Secretary for Resources Development of their January 1, 1975 rate increase and the Provincial Secretary should refer the rate increase to the Ontario Energy Board for review and report as soon as the new legislation with respect to the Ontario Energy Board is passed.

The review of electrical power rates should be a continuous and perennial process. This will mean that unreviewed increases after the January 1, 1974 increase will not take place again.

An important benefit of perennial review is that the regulatory lag will be held to a minimum: protracted hearings can unduly delay rate increases that are, in fact, necessary for the financial health of the applying utility and delay in rendering a judgment, whether an increase is permitted or not, can prejudice planning by the utility concerned. Task Force Hydro, in recommending a rate review board, has recommended that terms of reference should be simple: the board should be directed to adopt as simple a procedure as possible; hearings on rate increases should be held on the basis of given rates of return, power costing procedures and the proposed generation development program and, finally, there should be a continuous process of review based on a perennial calendar.

These are sound proposals. The Government of Ontario is responsible for the careful audit of the timing of all price changes; permitting the increasing of prices before the utility needs the increase can result in windfall profits to the utility at the expense of the consuming public; unduly delaying decision when a utility is under severe cost pressures can be damaging to the economic viability of the utility concerned.

Proposal #41 The procedures for rate review or regulation with respect to electrical energy, natural gas and any other type of energy should be as simple as possible. The relevant recommendations embodied in Report #4 of Task Force Hydro and referred to above should constitute guidelines as to the terms of reference of the Ontario Energy Board. Further, the expedited procedures recently promulgated by the National Energy Board as an amendment to its Rules of Practice and Procedure with respect to natural gas should be considered for adoption by the Ontario Energy Board.

The establishment of a rate review process for Hydro, together with the existing regulation of gas utilities in Ontario, places electricity and gas pricing and costs in full view of the public. There is no similar requirement with respect to oil and petroleum products. The projected increases in the costs of energy apply to all forms of energy and increases permitted in the price of gas may tend to encourage unexamined and unregulated increases in the price of petroleum which, on the basis of costs, may be unjustified. Regulation of oil prices may or may not prove to be necessary but information concerning the logic

of price decisions might appropriately be available to the public.

As an example, a recent amendment to the Alberta Gas Arbitration Act instructs that arbitrators must base the price charged for Alberta gas on a criterion of commodity value -- the price charged for gas must relate to the cost of equivalent energy from oil. To the extent that prices are related in this manner successive increases in gas and petroleum can have the effect of ratcheting prices upward.

Proposal #42 The Energy Secretariat should examine the merits and demerits of a requirement that the price of petroleum products in Ontario should be subject to review and should be instructed to report their findings and conclusions to the Provincial Secretary for Resources Development.

A Strong Energy Secretariat: It is implicit throughout this report that it is in the interests of the Province of Ontario to develop a strong, sophisticated, open and flexible Energy Secretariat to deal with questions of policy. Given the range of responsibilities proposed this is obviously necessary.

Proposal #43 The Government of Ontario should ensure that the revenues are available to create a strong Energy Secretariat and the Provincial Secretary for Resources Development should ensure that the Secretariat's understanding is broadened through constant communication between the Secretariat, the Ministries, Ontario Hydro and the private sector, including the interchange of personnel.

A Strong Energy Board: Initial steps have been taken to improve the regulatory process, including the appointment of legal counsel for the service of the Ontario Energy Board. It is important that the Board should be strong enough that it can perform promptly and effectively in the face of any change in Government policy that might extend the responsibilities for the regulation of energy sources in Ontario. There must be enough trained and experienced people so that the Board can have specialized panels that can simultaneously conduct hearings with respect to price changes proposed for various forms of energy.

Proposal #44 The Government of Ontario should direct that the Ontario Energy Board should be so strengthened that it can undertake special or broadened duties and will have the necessary staff to hold simultaneous or

perennial hearings dealing with applications to increase the price for any type of energy.

Gas Prices and Inter-Provincial Negotiations: Canada is not short of energy resources and there is no reason why Ontario should not always have ample supplies and reserves of energy in appropriate forms. Situations can, however, arise. As a case in point, TransCanada PipeLines Limited are presently negotiating for supplies of natural gas with the Alberta producers and, though the supplies would be available if price concessions were made, it may be in the interests of Ontario that this company should not be encouraged to become too easy a mark. One consequence could be a temporary supply problem with respect to this type of energy.

Proposal #45 The Ontario Energy Board should forthwith design supply management policies that will cope with any short term energy supply problems and, as part of such a design should consider the appropriateness of the continued use of natural gas as the energy source in the Hearn Generating Plant.

In a speech in Sarnia on March 9, 1973, I expressed very vigorously my reaction to the unexpected announcement of the Premier of Alberta of his determination to more than double the wellhead price of natural gas and to intervene in existing and future gas contracts. Subsequent events have not encouraged me to alter the views I expressed at that time. Amendments which I consider to be (a) contrary to the national interest in our federal state and (b) prejudicial to the interests of Ontario consumers, have been introduced into the Alberta Legislature. Difficult negotiations have gone on between TransCanada PipeLines Limited and Alberta producers.

Pursuant to the responsibilities you placed upon me I have held discussions with representatives of the Government of Alberta.

I am gratified that the Governments of Canada and Alberta have agreed to your proposal that there should be a Federal/Provincial meeting to design structures to improve the national management of this important resource. I also note that the Premier of Alberta has made it specific that he does not visualize this as influencing price. Statements by the spokesmen for the Government of Canada have been most discouraging in terms of policy leadership from that source, although I should perhaps add that, although at the time the

Minister of Energy, Mines and Resources dismissed my March 9th proposals as "non solutions", his recent pronouncements bear a remarkable similarity to the policies I proposed.

I would underline that the amendment to the Gas Arbitration Act which has been introduced into the Legislature of Alberta makes it mandatory that the arbitrators relate natural gas prices to the equivalent prices of other energy sources, of which oil is the most important.

Even ignoring the windfall profits for the producing companies that are implicit, it leaves Ontario and the other provinces of Canada precularly vulnerable to escalation in world prices for oil: if the partners in O.P.E.C. decide to restrict oil supplies to win a political point in negotiations with the United States, for example, or use their position of effective leadership in world oil prices to force higher returns, under the amended Alberta Gas Arbitration Act, it will drive up the price of natural gas in Ontario.

Ontario is not seeking "low" prices for gas but, as stated, must seek reasonable prices. No one could suggest that it is reasonable that gas prices in this province should bob up in response to international tensions and monopoly pricing in the world market. Alberta has gone so far that in the interests of Ontario and in the national interest this province has no real option but to vigorously resist the proposed changes.

Although the responsibility of the Government of Ontario is to the citizens of this province it is not inappropriate to underline the primacy of the national interest. I would make very explicit the underlying implication of my insistence on the primacy of the national interest with respect to fossil fuels in Alberta. It relates equally to the natural resources of Ontario. In this argument I am fully conceding that the resources of copper, nickel, uranium and other Ontario resources must first be available to the people of Canada and only secondly be available to world markets. In a federal state such as Canada it should not be necessary to explicitly state that the interests of the components parts must be subordinated to the interests of the whole. If there is a difference of opinion as to the national interest, implying a difference of interpretation as to the terms of the constitution of the nation, the seeking of a judgment as to the constitutionality of an action is to support the national interest.

The advice that we have had is to the effect that there is a serious question as to the constitutionality of the proposed Alberta actions. It is my view that the constitutionality should be tested.

Proposal #46 The Government of Ontario should take such steps as are necessary to test the constitutionality of any actions by the Alberta Government which are not in the national interests of Canada and which threaten the supply and price of Ontario energy sources.

SECTION VIII CONCLUDING NOTES AND ACKNOWLEDGMENTS

It bears repetition that the problem of a secure supply of clean energy for Ontario is many-faceted. In the months and years ahead it will engage the concentrated attention of the Government of Ontario. Negotiations involving security of supply and price are likely to be difficult and protracted. Regulation of utilities will become more, rather than less, complex. The interests of the province will be served by major efforts in the direction of conserving energy. Continued monitoring of policies and facilities in terms of their impact on the environment, will be necessary. Compromises are going to be made and it will be vitally important, if unfortunate tensions are to be avoided, that the public be kept fully informed as to developing problems and proposed solutions.

The Energy Secretariat will play a central and important role but proposals are made in this report that will involve decisive action by all the Ministries in the Resources Policy Field and many in other policy fields. The Ministry of Treasury, Economics and Intergovernmental Affairs is likely to be continuously involved. The Energy Secretariat will perform a central coordinating and liaison role in its policy field and throughout the Government. Energy supply, security of supply and appropriateness of price are sufficiently central in the life of Ontario that energy considerations will

involve all Ministries and many persons outside Government.

It is fortunate that many inside and outside Government have an understanding of the nature of the problems involved: in the preparation of this report I have been greatly aided by advice, assistance and thoughtful suggestions from people in various Ministries and agencies of the Government of Ontario, private business, environmental groups and from the general public. I gratefully acknowledge their help.

All of which is respectfully submitted.

